



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

November 12, 1997

The Honorable Robert F. Bennett
Chairman
Subcommittee on Financial Services
and Technology
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, DC 20510-6075

Dear Mr. Chairman:

Thank you for your recent letter concerning efforts by the Office of the Comptroller of the Currency to manage the risks associated with the year 2000 problem. As I stated in my July 30 testimony before the subcommittee, the attention you are giving this issue plays an important role in raising public awareness of the serious impact the year 2000 may have on American industry and the American economy.

As you requested, we are submitting the first of our quarterly reports on the progress of national bank efforts to make their operations year 2000 compliant, and on the OCC's work to make its own systems compliant. In the report that follows, we address each of the nine questions you list in your letter dated October 14, 1997.

The OCC has developed an aggressive strategy to see that all national banks prepare for the century date change. We are now well into our supervisory program, which includes an on-site year 2000 examination of every national bank and vendor by mid-1998, and follow-up examinations where necessary -- in addition to a year 2000 review as part of each institution's regularly scheduled safety and soundness exam.

The OCC is requiring all institutions we supervise to establish detailed contingency plans that identify alternative product or service providers, in the event that a vendor cannot correct systems or software on schedule. Banks need to include trigger dates for deciding whether to implement these contingency plans. Also, strategies for dealing with foreign and domestic counterparties must be included, where appropriate. Banks must consider ways to minimize their

exposure to losses that could result if their business and borrower counterparties experience transaction failures due to year 2000 problems.

To date, the OCC has completed about 500 examinations, and preliminary findings show that national banks, overall, have developed compliance programs and are addressing their year 2000 needs. However, some, mostly community banks, have been slow to prepare their vendor management plans. On September 30, I wrote to the chief executives of all national banks and bank vendor companies to express my concern about the results of the assessment, and to remind them of the compliance deadlines.

Since that time, our examiners have talked directly to the chief executives of the institutions that seemed to be falling behind. In each case, the bank has either brought its compliance efforts up to date, or an examination has been scheduled. We will continue to monitor closely the progress of these institutions in meeting year 2000 deadlines.

All the federal depository institution supervisory agencies, including the OCC, are basing their examinations on guidance issued by the Federal Financial Institutions Examination Council (FFIEC). As current chairman of the FFIEC, I am working with the other member agencies to make sure that we are taking maximum advantage of the specialized knowledge our agencies possess in order to carry out the most comprehensive and effective supervision.

We plan more detailed guidance on targeted issues, such as credit risk, over the next several months. Additional guidance and other council initiatives will be developed as new issues are identified. Some FFIEC initiatives now underway include:

- *Testing:* We are developing tactics for monitoring the testing of interconnected computer systems among banks and their counterparties, including customers, government agencies, other banks, and vendors. A project led by the Federal Reserve Board will produce FFIEC testing procedures for payments systems interconnections.
- *Contingency Plans:* We are developing interagency contingency plans to enable supervisory teams to respond quickly and effectively if we find a bank is in trouble. A project team led by the Federal Deposit Insurance Corp. is establishing FFIEC procedures for potential liquidation and resolution matters. The OCC has taken the lead on developing model supervisory letters and enforcement actions, should such measures be necessary.
- *Vendor Examinations:* We are conducting interagency examinations of the largest data-service providers that serve multiple financial institutions. Responsibility for all other vendor examinations are divided among the FFIEC agencies.

In addition to the above initiatives, the member agencies of the FFIEC are working collectively to design educational outreach programs.

The FFIEC member agencies are working closely with the institutions we supervise to ensure that they are doing all they can to protect bank customers from inconvenience or harm caused by a year 2000 malfunction at a bank. We are striving to ensure that financial institutions understand what the year 2000 situation demands and respond accordingly. As chairman of the FFIEC and Comptroller of the Currency, I am completely committed to that goal.

Separately, the OCC and the Fed have called attention to the year 2000 problem within the international supervisory community. The Basle Committee on Banking Supervision recently issued guidance that went to bank supervisors in 150 countries.

Mark L. O'Dell, Director of Bank Technology, will be responsible for the quarterly briefings of the Committee and he will provide any additional information you may need. If I can be of further assistance, please do not hesitate to contact me.

Sincerely,

Eugene A. Ludwig
Comptroller of the Currency

Attachments

Q.1: How is your agency progressing with its own internal Year 2000 remediation and risk management efforts? The answer to this question should include specific information about the identification and assessment of affected systems, the progress of remediation efforts, testing, contingency planning, and budgetary, resource and personnel issues.

A.1: The OCC adopted a comprehensive plan in May 1996 to make its own systems and work environment year 2000 compliant. We are committed to providing all the resources necessary to carry out this plan. The Agency expects to have every one of the systems we intend to maintain past the year 2000 ready for testing no later than September 30, 1998.

To carry out our plan, we have assigned senior staff in our Information Technology Systems Department specific responsibility for upgrading each of our automated application systems. Most of the OCC systems support internal operations, such as maintaining examination, personnel, and financial records. Thus, we have assembled a project team to coordinate work in these areas.

We anticipate our year 2000 project will cost approximately \$1.6 million to complete, including the cost of bringing our workplace environmental systems up-to-date. For 1998, we estimate that we will devote to the project 12 full-time employees, supplemented by contractor support. The OCC is fortunate to have a significant number of staff who are proficient in COBOL, so we believe we have the expertise we need to renovate our legacy mainframe systems.

The OCC has completed an inventory of all our systems, and in so doing, we have reviewed over 6 million lines of computer code. We have identified 1.6 million lines of code that need to be fixed. Presently, we are making code revisions on all mission-critical systems. Our goal is to proceed to the testing phase for these systems as soon as we can since we recognize it is likely to be the most difficult and time-consuming step. For each critical system, we are also developing a contingency plan.

We have also scheduled all of our less critical systems for conversion and testing. In addition, we have incorporated year 2000 compliance requirements into all of our contracts, and any software that we buy off-the-shelf will be tested for compliance.

Q.2: What steps is your agency taking to monitor and encourage Year 2000 compliance among and within the institutions you supervise? Specifically, you should address your plans for on and off-site examinations, examiner expertise and training, sanctions against non-compliant institutions, and communication with financial institutions and the public.

A.2: The OCC's supervisory objective for the year 2000 effort is to ensure that the national banking system is operationally ready to face the new millennium. To achieve this, each depository institution needs a comprehensive project management program that includes the following features:

- Corrects year 2000 problems in internally developed applications;
- Works closely with third party providers of data processing products and services (vendors);
- Reviews and addresses the myriad of environmental systems controlled by embedded microchips, such as vaults and elevators;
- Tests all points of electronic exchange of information, internally and externally;
- Establishes contingency plans; and
- Minimizes the bank's exposure to losses caused by transaction failures of business and borrower counterparties due to their year 2000 problems.

The FFIEC is playing a central role in providing the banking industry guidance for managing this effort. The council has outlined our regulatory expectations of the industry regarding the year 2000, including requirements for contingency plans and testing. In turn, each agency is responsible for the full and consistent implementation of this guidance at the institutions they supervise.

Examinations. The OCC will examine every national bank, on-site, for year 2000 compliance by mid-1998 using FFIEC guidelines. We will follow up with special on-site examinations as necessary, and we will include year 2000 procedures in every regularly scheduled safety and soundness examination conducted between now and year end 1999. We are also setting up a monitoring system that allows examiners and OCC management to follow closely the progress made by each institution.

Thus far we have:

- Conducted assessments of every financial institution we supervise in order to determine each institution's year 2000 readiness; the degree to which large national banks are taking into account the year 2000 exposure of their largest borrowers; and the effect of a large bank's preparation for the new European single currency on its ability to become year 2000 compliant.

- Contacted the CEOs of each of the banks and vendors that we found to be lagging. For banks that had not taken sufficient action, we scheduled an on-site examination within 90 days. On September 30, I wrote to all national bank and vendor CEOs, expressing my concern over the assessment results and urging them to make every effort to conform to the FFIEC compliance schedule outlined in the May FFIEC guidance.
- Completed approximately 500 year 2000 examinations.

Supervisory initiatives underway include:

- Factoring into an institution's overall safety and soundness CAMELS rating the progress an institution is making in managing its year 2000 program.
- Completing a review process for bank mergers and other corporate applications which will ensure that assessments of year 2000 efforts are included in our licensing decisions.

OCC examinations of vendors will be coordinated through the FFIEC. Large data processing centers and publishers of bank turnkey software will be jointly examined under the Multidistrict Data Processing Servicer (MDPS) program or the Shared Application Software Review (SASR)¹ program. The FFIEC intends to accelerate the examinations of these companies so that examination information may be gathered as soon as possible. Formal quarterly monitoring of these institutions' year 2000 efforts has begun as well.

The examination responsibility for the approximately 300 smaller, regional independent data centers has been divided among the FFIEC member agencies. The OCC will take the lead in examining more than 100 of these firms and we will complete the examinations before June 30, 1998. We will include these institutions in our monitoring program, starting in the first quarter of 1998.

Training. Year 2000 examinations of the OCC's most complex national banks and all of the data centers will be done by our Bank Information Systems (BIS)/Technology cadre². Earlier in the year, members of the cadre participated in an FFIEC training seminar on year 2000 problems associated with information technology security. We also have conducted basic background training sessions for our safety and soundness examination staff, during which we discussed the FFIEC year 2000 guidance and our regulatory expectations.

¹There are 16 data centers and 12 bank software publishing companies that are in the MDPS and SASR programs, respectively. These institutions are generally national in scope, with an aggregate market share that is estimated in excess of 50 percent.

²The BIS/Technology cadre members are the OCC's most experienced BIS examiners and are devoted full time to the supervision of the operational and technological functions of our largest and most complex banks and data centers. We have about 80 such examiners.

We are working with external providers of technology training to design additional training for our staff to address topical issues, including vendor management, and year 2000 contingency planning and testing. This training should begin during the first quarter of next year. In addition, we are discussing with other agencies whether year 2000 training should be offered through the FFIEC.

Sanctions. The FFIEC has established a working group to look at enforcement issues. The group, led by the OCC, is completing work on model supervisory letters and enforcement actions.

The OCC's use of enforcement tools will be tailored to the problems found at the institutions. When we identify an institution that is slipping behind schedule and is likely to miss one or more of the key year 2000 benchmark dates, our general approach is to assess management's ability and commitment to taking effective corrective action. If the problems do not threaten the safety and soundness of the institution, and management is able and willing to correct problems, the bank will be typically notified of deficiencies through a formal supervisory letter to the bank. That letter will identify problems, outline corrective measures, and set deadlines for management action. Should we find problems that threaten the safety and soundness of the institution, we will not hesitate to take formal enforcement action.

To date, the OCC has taken no formal enforcement actions in this area. We have, however, issued several supervisory letters which specifically target year 2000 deficiencies. We are closely monitoring bank corrective efforts and stand ready to take any additional steps that are necessary to ensure aggressive remedial action.

Communication. The member agencies of the FFIEC first alerted the industry to our supervisory concerns about the year 2000 in a June 1996 Interagency Statement. In May 1997, the FFIEC issued guidance on establishing a project management program to achieve year 2000 compliance.

The FFIEC is working on additional guidance. These documents will outline our regulatory expectations for banks' year 2000 programs in the following areas:

- Board and senior management involvement, including reporting requirements;
- Vendor management and contingency planning;
- Assessing the impact of year 2000 problems on bank counterparties; and,
- Testing.

We expect these documents to be published by the end of this year, with the exception of the testing guidance, which is targeted for completion in the first quarter of 1998. As we get closer to the year 2000, we expect more issues will arise, and the FFIEC stands ready to issue further guidance to help examiners and bankers address them.

In addition to publishing guidance, the FFIEC is actively engaged in several outreach initiatives. Earlier this week, the FFIEC sponsored a vendor conference to clarify our supervisory

expectations and to discuss the concerns of vendors and depository institutions. The FFIEC also is planning to hold a second meeting with industry trade associations sometime next year. The meeting's purpose will be to encourage cooperation within the industry in meeting year 2000 challenges.

Senior OCC management will maintain an active role in communicating year 2000 issues to national banks. For instance, the Comptroller of the Currency spoke on the year 2000 problem at an FFIEC risk management conference for bankers in September. In addition, a discussion of the year 2000 is included on the agenda for each of the "Meet the Comptroller" meetings with senior bank officers and directors, which we hold throughout the year. And our district management teams have been very active in discussing this issue with their bankers during outreach meetings.

Q.3: Based on your examinations since the last briefing, what is your assessment of the industry's progress in preparing for the Year 2000?

A.3: The OCC has completed approximately 500 examinations since June. Our preliminary analysis of the exam results provides evidence of strong commitment and identifies some areas of concern. Specifically we have found that :

- Virtually all the institutions we examined are aware of year 2000 problems.
- The large national banks have year 2000 project management efforts underway. Most of these institutions operate their own in-house systems, and their conversion projects are substantial in size and expense. These large banks are well into the renovation of their systems, in accordance with FFIEC guidance. Some internal testing of year 2000 corrections has begun. We have, however, asked several large institutions to increase project resources as well as senior management involvement in overseeing the project.
- Large banks involved in mergers require an integration of complex computer systems and networks that heighten our concerns over the newly formed institution's ability to be ready for the year 2000. In our oversight of merger applications, we are evaluating the capabilities of the institutions to successfully complete both the complicated integration process and their year 2000 compliance requirements.
- Community banks have made progress since our initial snapshot of the industry this summer when we saw a significant lack of awareness of year 2000 issues. In the examinations we have conducted since that time, we find smaller banks are generally aware and beginning to act. Too many community banks, however, still do not have formalized project plans and complete contingency plans for vendor operations.
- Examination results of data centers mirror what was found in large banks. However, given that many smaller banks rely heavily on vendors for much of their data-processing and software services -- and therefore, on the vendors' year 2000 compliance efforts -- the FFIEC agencies plan to accelerate the schedule of our joint examinations of large data centers.

Banks that have significant deficiencies identified during our initial examinations have been put on notice that they are behind schedule and will be held accountable to demonstrate improvements as soon as the next quarter.

Q.4: What steps have you taken or do you plan to take to further the goal of comprehensive testing within the industry you supervise? What is the current status of such testing initiatives?

A.4: The FFIEC has emphasized the critical importance of testing and validation in guidance, examinations, and discussions with senior bank management. We recognize the critical nature of testing in successfully dealing with year 2000 problems. This is the most critical, and most difficult aspect of the entire year 2000 project management process. Experts tell us testing is likely to consume 60 percent of the overall project time and 50 percent of the resources devoted to the effort. Consequently, much of our focus as regulators in 1998 and beyond must be directed at ensuring that financial institutions' year 2000 project management plans include comprehensive testing programs.

Up to this point, the FFIEC regulatory agencies have focused their efforts on ensuring that financial institutions are aware of the issue, have credible contingency plans in place, and have begun the process of fixing application code if they do in-house development. In the first quarter of 1998, prior to the point when most banks begin testing, the FFIEC will issue testing guidance. The Fed, with its payment system expertise, will take the lead in preparing this guidance.

The Fed also will play a central role in coordinating year 2000 testing. By the third quarter of 1998, the Fed expects to begin testing the Fedwire and other services with its counterparties, which includes most banks. In addition, payment system providers, such as CHIPS, have similar testing plans, which will provide an indirect means of coordinating industry testing efforts.

Q.5: What steps have you taken to prepare contingency plans to contain damage to the financial industry as a whole as a result of systems failures in the Year 2000?

Q.6: What steps have you taken to require the institutions you supervise to prepare contingency plans to contain damage as a result of systems failures in the Year 2000?

A.5&6: As chairman of the FFIEC, I am working with all the regulators of insured depository institutions to make sure we are taking maximum advantage of the specialized knowledge our agencies possess in order to develop comprehensive contingency plans. In addition, FFIEC member agencies are coordinating their efforts to use our resources more efficiently. With regard to the OCC, we are using our on-site visits and meetings with senior management to make sure each institution has in place adequate and specific contingency plans. Collectively, I believe all these actions will ensure that institutions adopt the plans and procedures necessary to contain the most serious problems that may arise.

FFIEC Activities. The FFIEC has established a working group composed of representatives of each of the banking agencies to develop specific contingency plans for dealing with potential systemic problems, and to develop a consistent set of policies and procedural tools for each supervisor to apply to its institutions. As part of this collaborative effort, the Fed is focusing on ways to prevent disruptions to the payment system, and the Federal Deposit Insurance Corporation is considering liquidation and resolution issues. An example of the kind of contingency actions the regulators are prepared to take is the Fed's offer to make its computer resources available to assist any of its customers, including national banks, should a bank's systems fail to work after year-end 1999. The OCC is coordinating the FFIEC contingency planning team, which is drafting model enforcement procedures.

OCC implementation. In our examinations, the OCC is paying particular attention to the adequacy of the contingency plans national banks have in place. We are stressing that it is critical for financial institutions to monitor their vendors' progress. If a financial institution finds that its vendor cannot meet the FFIEC's compliance schedule -- as outlined in the FFIEC May guidance - - it is that institution's responsibility to have a contingency plan for securing services elsewhere. Thus, we want to be certain all national banks that use vendors have identified other options in the event that their vendors cannot correct their systems or software on schedule. We also expect a bank to set a date certain for deciding whether it must implement its contingency plans.

With respect to large banks that do the majority of their programming in-house, we have full-time resident teams of OCC examiners working closely with these banks to monitor their progress and to review their options if a mission-critical system cannot be brought into compliance in time.

Another critical area on which we are focusing is the ability of national banks to handle liquidity problems that may arise. The OCC regularly evaluates liquidity risks and contingency funding plans for liquidity problems during bank examinations. The formality of the funding plans differ among banks, reflecting their level of risk exposure and their size. However, the century date change could result in problems of a greater magnitude and of a somewhat different character

than the banks have experienced in the past. Therefore, we want to be certain that all national banks have access to wire transfer lines that we know are year 2000 compliant. In addition, we are emphasizing that early testing is essential, so that problems can be isolated and targeted contingency plans can be effective.

Further, the OCC is evaluating the contractual relationships between banks and their vendors, to discern whether banks have adequate recourse in the event that a vendor does not take the steps necessary to avert a serious problem. The OCC is also evaluating the merits of banks acquiring insurance to help cover potential liability costs arising from year 2000 failures.

Vendor Examinations. The FFIEC is currently drafting detailed written guidance on contingency plans for vendor management, which we expect to be released before the end of the year. The guidance also will cover the due diligence process, contracting, establishing trigger dates for contingency plans, and testing.

The OCC, as part of the assessment we conducted this spring, identified the primary vendors national banks are currently using. During the vendor examinations the FFIEC agencies perform, if we learn that a particular vendor is having significant programming problems or its ability to pay for the cost of bringing its systems into compliance is in doubt, we will alert the affected national banks.

Q.7: What steps have you taken to encourage public awareness of the Year 2000 problem and encourage consumers to inquire into the preparedness of the financial institutions with which they do business? For example, what questions would you recommend customers ask their financial institutions to assess Year 2000 readiness? What disclosures about Year 2000 compliance, if any, are you requiring of the institutions you supervise?

A.7: The OCC is working closely with national banks and their vendors to see that they are doing all that they can to protect bank customers from inconvenience or harm caused by a year 2000 malfunction at the bank. In addition, bank customers have a right to know what kinds of problems could occur should their bank have an unexpected year 2000 problem, and what their bank is doing to prevent such problems from occurring.

At the same time, we want to avoid any actions that needlessly undermine public confidence in insured depositories or the payment system. Until testing of various domestic and international data interconnections begins in earnest -- and it will not be until the fourth quarter of 1998 -- no one can know for sure whether a particular institution faces significant difficulty. And, of course, problems also may emanate from outside the banking system, and it would be impossible for banks and their regulators to fully anticipate and forewarn customers about these problems.

OCC senior management have participated in press interviews and given speeches on the year 2000 problem, in an effort to communicate our concerns to a broad audience. Most recently, the Comptroller of the Currency spoke extensively on the topic at a September FFIEC risk-management conference for bankers. The OCC web page also references our year 2000 speeches and testimony, as well as FFIEC materials.

The FFIEC member agencies support a careful and responsible outreach approach that will educate and inform consumers about the realities of potential year 2000 malfunctions. More and more banks and industry associations are setting up programs and preparing materials to provide this information to bank customers; the OCC encourages these efforts.

In addition to the public release of our FFIEC policy statements and guidance, FFIEC members have taken advantage of many public speaking engagements and trade group meetings throughout the nation to discuss the year 2000 issue with broad audiences. The FFIEC has established an Internet web site to make documents and other information more accessible. Member agencies of the FFIEC also will meet in the near future with various community banker associations, CPAs and international trade groups to address year 2000 issues and concerns.

In the end, the first line of defense for consumers is for banks to do everything they can to bring their systems into compliance, and to have effective contingency plans in place to address the problems that may arise. This is where the regulators and bankers are focusing their energies now.

The FFIEC members and the banks will continue to work together to promote consumer outreach and consumer protection activities. This may include disclosures deemed necessary and in the best interest of the public.

Q.8: What formal or informal guidance have you provided to the institutions you supervise on the need to manage the credit risk associated with the year 2000 problem? How are financial institutions managing this risk?

A.8: The FFIEC's May Interagency Statement outlined the due diligence process that banks should undertake in assessing the year 2000's potential impact on their credit exposure. The process should include assessments of large corporate borrowers' year 2000 efforts and the risk those borrowers' operations will become disrupted. The OCC is working closely with the FFIEC agencies, through the examination process, to ensure that banks are managing this potential risk. In addition, the OCC and OTS have begun work to draft additional guidance for the FFIEC that would extend the due diligence process to all key counterparties of a financial institution.

During the spring Shared National Credit Review process, the OCC surveyed large syndicating banks to determine what effect year 2000 problems would have on the ability of large corporate borrowers to service debt. We repeated the survey again this fall, and the information obtained through these two surveys will be reflected in the upcoming credit guidance.

In our survey and in our examinations to date, we found:

- Most large banks will review year 2000 plans with corporate borrowers, and many will include year 2000 analyses in their file documentation or credit review process.
- Some larger banks have held training seminars for account, policy, and loan review officers; drafted guidance and questionnaires to assist officers in assessing borrower preparedness; assessed corporate client preparedness; and developed plans to address year 2000 issues with individual customers.
- A few national banks have put year 2000 language into their credit agreements, including rewriting financial covenants, modifying material adverse change clauses, and inserting a year 2000 warranty clause.
- Smaller community banks are just now beginning to identify the steps they need to take to manage this source of credit risk exposure.

Q.9: How are foreign financial institutions and their governments progressing in response to the year 2000 problem? What impact is their level of compliance likely to have on the United States financial services industry? Are the institutions you supervise taking preventative measures and developing contingency plans to address problems that might arise in relationships with overseas institutions?

A.9: The Federal Reserve Board, the Federal Deposit Insurance Corporation, and the OCC have taken steps to focus the international supervisory community on the year 2000 issue, recognizing this is a matter of global dimensions. We currently are working with foreign supervisors through the Basle Committee to ensure that foreign banks and their supervisors are fully aware of the issue, and we are encouraging foreign bank supervisors to take appropriate remedial action. In September, the Basle Committee published a paper that outlines the steps that banks and their supervisors need to take to prepare for the year 2000. The Basle Committee has sent copies of this paper -- which covers many of the same points as the FFIEC's May 1997 statement -- to banking supervisors in more than 150 countries.

The Basle Committee also has established a task force on year 2000 issues, which is conducting a survey of the state of year 2000 preparations both in G-10³ and non-G-10 countries. The results of that survey are not yet in, but we know from anecdotal reports that banking supervisors in other countries are aware of the year 2000 issue, and in some cases, have already issued guidance. The OCC will continue to work closely with the Basle Committee to track international year 2000 efforts and to provide guidance where it is needed.

The sense we have is that, while the central banks in most countries are actively working to renovate their systems, in some of those countries the level of awareness and activity declines significantly outside the banking sector. Compounding that problem is the shortage of programmers who know legacy mainframe languages.

Also, European banks and businesses face considerable challenges to modify their systems to handle the Euro, which is scheduled for introduction on January 1, 1999. We have some concern that it will be difficult for them to simultaneously convert systems for the Euro and for the year 2000.

OCC examiners have talked to the largest national banks and data centers, and to the federal branches we supervise that are active in foreign currency transactions, to find out whether the scheduled 1999 introduction of the new Euro currency may place significant competing demands on scarce technical resources. None of these institutions said that their EMU projects conflicted with their year 2000 projects. We are working to verify those assertions.

In addition, we are looking into the exposure that U.S. branches of foreign banks have to operating failures at their parent banks, as well as whether any U.S. branches operating overseas

³The G-10, or Group of Ten, includes the following countries: Belgium, Canada, Germany, France, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, the United States.

will face difficulties in exchanging data with systems in other countries. In our examinations, we will review the banks' year 2000 plans for international operations and ensure that they include appropriate contingency options.

To a great extent, we must rely on foreign governments and private businesses abroad to achieve compliance worldwide. And no matter how well banks and their supervisors prepare for the century date change, we cannot completely eliminate the risk that a large foreign bank or borrower will find itself in trouble because of year 2000 problems. Thus, we are monitoring the level of exposure national banks have to foreign banks and borrowers.